

Why
San Antonio
Booms After
85 Years of
Military Service
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Troop Surge Brings Big Bucks to El Paso



Why Charitable Giving Means More to Texas Than You Think

FISCAL NOTES

A Monthly Review of the Texas Economy from the Office of Susan Combs, Texas Comptroller of Public Accounts, August 2008

JULY REVENUE (IN MILLIONS): SALES TAX: \$1,874.9 OIL PRODUCTION: \$158.5 NATURAL GAS: \$337.6 MOTOR FUELS: \$250.1 MOTOR VEHICLE SALES: \$293.2 TOBACCO: \$137.7

March Along, Sing Our Song

The might of the U.S. Army rings strong in Texas. Fort Hood, located near Killeen, helps drive a brisk state economy by contributing billions of dollars annually. The military installation, one of the largest in the world, also distinguishes itself in a number of other ways:

- Fort Hood is the largest single site employer in Texas, with more than 52,000 assigned personnel and 9,600 civilian employees
- The base directly contributes more than \$3 billion to the Texas economy each year
- In 2005, the Texas Comptroller estimated the direct and indirect impact of Fort Hood in Central Texas at more than \$6 billion
- The base occupies more than 335 square miles in Central Texas
- One out of every 10 active duty soldiers in the U.S. Army is assigned to Fort Hood
- Fort Hood is ranked No. 1 among the Army's 97 installations in terms of future capability

Source: U.S. Army

Defense Industry Flies High

Texas ranked second among states for total defense contract value in 2007, with the lion's share going to aerospace.



Contracts Pour Billions into State

The first airplane manufactured in Texas, a trainer, rolled out in July 1940. Then came Pearl Harbor — and a torrent of orders for aircraft and related parts and equipment. Enormous plants constructed near Fort Worth and Dallas began churning out thousands of airplanes as part of the most rapid industrial expansion in history. And Texas entered a new age.

Defense spending in Texas has risen dramatically in recent years, jumping by more than 202 percent since 2000.

Today, defense is one of Texas' most important industries. According to the Web site Government Contracts Won, which collates public records concerning defense spending, 11,658 Texas companies contract with the Department of Defense (DOD), earning

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Going Private

Port San Antonio prospers following 85 years of military service.

Resounding success has replaced any residual fears that Kelly Air Force Base (AFB) would fall into ruin following its closure in 2001. Thanks to steadfast support from San Antonio's city and economic development leaders, the former military installation has reinvented itself into a phenomenal economic force.

No End in Sight

Tenants of Port San Antonio, named for its airport and rail facilities, generated \$2.5 billion for the Texas economy last year, about the same output Kelly AFB generated in 1995. In 2007, Boeing added 400 workers to install electronic and mechanical equipment on its Dreamliner 787, and the port leased a building to the Air Force, helping increase the port's total output by as much as \$808 million, according to a study from the University of Texas at San Antonio. The port and its 74 tenants also produced \$52.2 million in Bexar County taxes, \$44.6 million in state taxes and \$20.3 million in utility usage in 2007.



With an air cargo facility nearing completion and its railport open for more than a year, the growth possibilities seem endless. (For a list of tenants, go to www.portsanantonio.us). On the horizon is a 200-acre high-density, mixed-use development called Kelly Town Center, which will feature shops, restaurants and multi-family housing.

A Rapid Rebound

How fast has the community bounced back from the military base closure? Look back to the mid-1990s, when more than 20,000 people were assigned to Kelly AFB, including more than 15,000 civilian workers and about 5,000 military personnel. The base had a \$666 million annual payroll.

By 2007, Port San Antonio employed 8,529 workers and had a total payroll of about \$813 million. The port produced a direct economic impact of \$1.5 billion, most of which was generated by tenants.

Two fortunate twists occurred in what was at first perceived as an unfortunate base closure. First, the military gave the city five years' notice of its departure. Second, the port quickly secured key tenants Lockheed Martin and Boeing. This one-two punch created what Port San Antonio CEO and President Bruce Miller calls "an instant success."

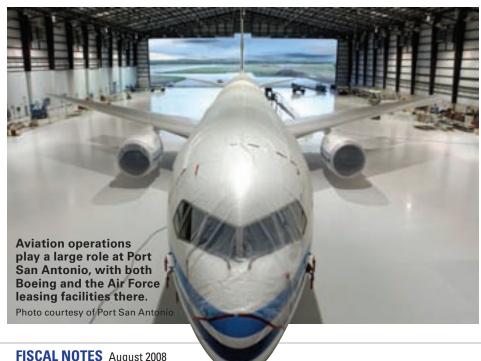
But don't confuse instant with inexpensive. Transferring the industrial park from federal to city governance meant millions of dollars in new construction. It also involved branding the industrial park as a global transportation hub. Port San Antonio has positioned itself as a prime entry point into the United States with air, rail and interstate highway access.

Planes, Trains and Opportunities

Among the milestones in the port's development, Miller points to the partnership with Estafeta, Mexico's version of FedEx. In 2007, it agreed to provide cargo service between Mexico and the U.S. for small- and medium-sized export companies. That and the imminent opening of an air cargo facility have strengthened the port's foothold in global shipping.

Last year the port received \$38 million to build an 89,000-square-foot air cargo terminal from the Texas Military Value Revolving Loan Fund, created by the Texas Legislature. The fund provides financial support to communities impacted by the Department of Defense's Base Realignment and Closure (BRAC) program. Port San

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Going Private

Antonio will use Kelly Field's 11,500-foot runway under a joint agreement with neighboring Lackland Air Force Base.

Port San Antonio's East Kelly Railport, which opened in 2007, has become a critical shipping link with access to Union Pacific and BNSF Railway. It provides access to deepwater ports in Houston, Corpus Christi, Los Angeles and Long Beach, Calif.

Port San Antonio is the city's most important economic development project in the past decade, says Mario Hernandez, president of the San Antonio Economic Development Foundation. Port San Antonio also worked hard to align itself with the sentimental value that generations of people placed on Kelly AFB.

"It took a few years for people to recover and realize Port San Antonio would create opportunities in other sectors," Hernandez says. FN

For more information on Port San Antonio, visit www.portsanantonio.us. To view a list of of smaller installations and activities that were also affected by BRAC, visit www.fiscalnotes.com.



BRAC Closures and Realignments

BRAC closures in the 1990s and 2000s have brought vast changes to the Texas military base landscape. These are the state's major base closures, realignments and future closures. For a list of affected smaller installations, visit www.fiscalnotes.com.



(See BRAC Cost and Benefits, p.5)

Year	Base	Location	Action
1988	Fort Bliss	El Paso	Realigned
1991	Goodfellow AFB	San Angelo	Realigned
1992	NAS Chase Field	Beeville	Closed
1994	Carswell AFB	Fort Worth	Closed
1995	Red River Army Depot	Texarkana	Realigned
1996	NAS Galveston	Galveston	Closed
1996	Bergstrom AFB	Austin	Closed
1997	Reese AFB	Lubbock	Closed
1998	NAS Dallas	Dallas	Closed
2001	Kelly AFB	San Antonio	Closed
2011	Brooks City Base	San Antonio	Future Closure
2011	Ingleside	Ingleside	Future Closure
2011	Lone Star Ammunition Plant	Texarkana	Future Closure

Source: BRAC commission reports

BRAC Costs and Benefits

Other closures under the Base Realignment and Closure (BRAC) process, such as Bergstrom Air Force Base (Austin) and Reese Air Force Base (Lubbock), have yielded similar success.

When Bergstrom AFB closed in 1993, the Austin community lost more than 4,000 military and civilian jobs. It was estimated the local economy would lose \$339 million annually. But Austin's voters came to the rescue, approving \$400 million in general revenue bonds to convert the base into an international airport. Bergstrom International Airport last year served 8.9 million passengers and brought in billions to the local economy.

The number of Texas military installments has declined significantly since the end of the Cold War, but the presence of military personnel here has remained strong. In 1987, the Department of Defense (DoD) employed more than 200,000 active-duty military and civilian personnel in the state. That number decreased to 167,000 by 1996 but was back up to 225,990 in 2005. The latest round of BRAC changes, which will be completed by 2011, is expected to bring in more than 8,000 military jobs and approximately 5,500 indirect jobs to the state.

Since 1987, 13 major Texas military bases and 11 smaller installations have closed, are scheduled to close or have taken on new personnel and functions (see map, "BRAC Closures and Realignments").

Brooks City Base, also located near San Antonio, is scheduled to close by 2011. Its economic impact on Texas is about \$413.7 million annually. Add to that the 2011 closings of Naval Station Ingleside, with an estimated annual economic impact of \$22 million, and the Lone Star Ammunition Plant in Texarkana, with \$19 million in economic impact, and the initial costs of BRAC are high.

Despite this, the latest BRAC changes will provide a seismic benefit to San Antonio and will be the largest economic development project in the city's history, according to a 2006 report by the Military Transformation Task Force and the City of San Antonio's Economic Development Department.

The 59th Medical Wing from Lackland's Wilford Hall Medical Center will be relocated to Fort Sam Houston, where it will be merged with Brooke Army Medical Center as part of a new San Antonio Regional Medical Center. The 425-bed center will provide medical training for multiple branches of the military. The plan also calls for Fort Sam Houston to become a new center of excellence in battlefield and trauma care.

Because of the new medical center, San Antonio is expected to receive about 5,000 personnel and their families, 9,000 students annually and \$2.1 billion for construction. The DoD continues to be the city's largest employer, supporting nearly 200,000, including 48,000 retirees and 70,000 employees at local bases.

Through 2011, changes mandated by BRAC will have an economic impact of \$5.6 billion and support employment of more than 46,000. After 2011, BRAC's impact will lead to the employment of more than 11,000 additional people in the San Antonio area, provide an additional \$621 million to the economy and increase earnings by about \$500 million.

The future isn't so clear on the Gulf Coast. Nearly 600 acres currently housing NS Ingleside on the Gulf Coast will return to the Port of Corpus Christi Authority (POCCA) in September 2010. Officials there are already considering their options once the military leaves. One option could include a college campus, says Tom Moore, the port's business development manager. The port has begun talks with a firm to develop a master plan for the land, which is adjacent to 400 acres the POCCA already owns. FN

GO ONLINE:

See how West Texas recovered from the closure of Reese Air Force Base by visiting www.fiscalnotes.com.



Lightning Built in Texas

A new fighter pours jobs into the state.

In June, a sleek fighter plane intended for the Marines took to the skies over Fort Worth for the first time. The 40-minute flight marked another milestone in the development of the nation's Joint Strike Fighter — and the largest defense contract in U.S. history.

The aircraft was the Marine Corps version of this fighter, officially dubbed the F-35 Lightning II in July 2006, which is being assembled at Lockheed Martin's Fort Worth facilities. The F-35 incorporates stealth design as well as breakthroughs in electronic warfare technology, and is expected to be a frontline fighter for decades to come.

The F-35 is uniquely designed as a onesize-fits-all fighter to replace an array of current aircraft flown by the Air Force, Navy and Marines. The Air Force production model, the F-35A, first flew in December 2006; the Marine Corps version that debuted in June incorporates sophisticated "jump-jet" technology that allows it to take off from very short fields and land vertically. The Navy's F-35C is designed for the heavier strains of carrier takeoffs and landings, and is scheduled to fly in 2009.

The fighter's impact on Texas will be hard to overstate. "It's huge," says Keith Graf, director of the Texas Governor's Office of Aerospace, Aviation and Defense. "They're talking about producing 3,000 or more aircraft." A 2001 study commissioned by the Fort Worth Chamber of Commerce estimated that the project would lead to the creation, both directly and indirectly, of nearly 32,000 Texas jobs over its life.

And it's a long commitment. The U.S. General Accounting Office recently estimated that acquiring and maintaining the U.S. F-35 fleet through its expected decades-long service life might entail nearly \$1 trillion in total spending.

Foreign sales will add to that number. Nations participating in the F-35 development program include the United Kingdom, Italy, the Netherlands, Turkey, Canada, Australia, Denmark and Norway, although not all have committed to buying the production fighter. In recent months, Israel, Brazil and Singapore have expressed interest in the aircraft as well.

"These are long-term jobs. Someone getting on with Lockheed Martin now could potentially retire out of that program," Graf says. FN



Expansion is Bliss









El Paso readies for a troop surge at Fort Bliss.

El Paso, Texas, and Fort Bliss are preparing for an invasion. More than 20,000 additional soldiers — and the number could climb beyond 35,000 — are scheduled to move to the base by 2013, bringing jobs and more than \$21 billion in economic impact to the local economy.

"The expansion is going to triple the size of the installation as well as the number of soldiers," says John Cook, El Paso's mayor.

The troops will come as the base changes roles into a heavy-armor training post. Their arrival will create jobs across the region. About 2,000 civilian jobs have already been created in the service industry, including restaurants, mechanics and janitorial services. And with billions of dollars in infrastructure improvements planned at Fort Bliss itself, local subcontractors have plenty of work to do as well.

More than \$4 billion in construction is taking place, says Clark McChesney, director of the base transformation office. This includes housing, a new post exchange, childcare facilities and new gyms along with military facilities such as ranges for small and large weapons.

Along with the soldiers will come support personnel and families, adding about 65,000 more people, or nearly 10 percent, to the El Paso population.

Hustle and Bustle

Fort Bliss' reformation into a heavy-armor training post followed a May 2005 decision by the Base Realignment and Closure Commission. Reacting to that, the local community has worked together to prepare for the arrival of so many people,

says Richard Dayoub, president and CEO of the Greater El Paso Chamber of Commerce.

"There was a collective effort to identify the areas where we needed work and then to find solutions to those challenges," says Dayoub.

Trendsetters

One of the mainstays of any U.S. military installation is the post-exchange, or PX. A new one at Fort Bliss will have a unique look.

"Our new post-exchange is different in that it's an outdoor mall, what you'd normally see in an off-installation type of facility," says Clark McChesney, director of the Fort Bliss Base Transformation Office.

The facility will be the first of its kind on a U.S. military base and may serve as a model for future installations, McChesney says.

Going to Work

The number of employed people in El Paso was already expected to grow through 2013. The Fort Bliss transformation, meanwhile, could add more than 40,000 additional jobs in the same time frame.

	Employment	Employment projection after
Year	projections	BRAC announcement
2006	343,256	353,678
2007	347,502	364,469
2008	351,977	375,716
2009	356,667	382,431
2010	361,555	398,108
2011	366,628	403,898
2012	371,885	410,944
2013	377,321	417,512

Source: The Greater El Paso Chamber of Commerce

Health care, education, transportation and work force development are just a few of those areas. Dayoub says education for their children is foremost on arriving soldiers' minds.

Addressing this concern, El Pasoans passed more than \$875 million in bond initiatives for building new schools and refurbishing existing ones. Another \$300 million to \$500 million is anticipated, Dayoub says.

"We're forecasting a big demand in the teaching profession," Mayor Cook says. "Fortunately, the Pentagon is giving us demographic data on the ages of kids who are coming, so we can anticipate the types of teachers we'll need."

Elsewhere, one of the largest public/private highway partnership in Texas Department of Transportation history is under way to let base families commute without congesting existing roadways. Texas Tech University, in partnership with business and civic leaders and the Texas Legislature, recently expanded a two-year medical school program into a four-year program, the first in Texas in 30 years. This will help produce doctors and nurses, another area of critical need.

Where do you put all of these new residents? In houses, of course. And in the city listed as the 17th most undervalued U.S. housing market — median home price has risen from \$125,000 to about \$132,000 since 2004 — there's plenty of housing construction.

"Typically, the military will only build 40 percent of the houses needed, so 60 percent have to come from the private sector," says Cook. "In the last year, we've approved as many subdivision plats as in the previous three years combined. That's really encouraging for us." FN

The Greater El Paso Chamber of Commerce has an online guide to the Fort Bliss expansion at www.elpaso.org/team_bliss.html.

Giving: In the Heart of Texans

Philanthropy means business in the Lone Star state.

Texans live big — and many of us give big to a variety of causes. The state's citizens are consistently among the nation's top individual givers each year.

Mixing Sense with Sentiment

Michael Holthouse of Houston has successfully blended his business skills with his philanthropic tendencies.

Co-founder and CEO of Paranet, Holthouse sold the computer network services company for \$375 million in 1997. A lifelong philanthropist, in 1999 he founded Holthouse Foundation for Kids, a nonprofit that helps at-risk children learn life skills.

"There are many organizations full of well-intentioned people," he says. "The people are so passionate. But if they don't surround themselves with a quality board of directors or have business acumen, the organization will never survive."

The Foundation of Giving

What sort of economic return does an enterprise like Holthouse's Foundation for Kids give Texas? It's hard to say, but it's easy to imagine the intrinsic value of putting at-risk youth on the right path. In 2007, foundations nationwide gave an estimated \$42 billion to charities, up 10 percent from the previous year. And this rise occurred despite growing uncertainty about the economy. Texas ranked fifth nationally in foundation giving, which was more than \$1.8 billion in 2006. A foundation is broadly defined as a nonprofit corporation or a charitable trust to make grants to organizations or individuals for charitable purposes.

The state faces some challenges in giving. Per capita, Texas foundations gave about \$78 in 2006, while the nation's top giving foundations per capita were in Delaware. Foundations there gave \$749 per citizen. In giving alone, Delaware ranks 19th nationally with about \$640 million, a third of what Texas foundations give.

Top Texas foundations in 2005 contributed more than \$400 million in grants, scholarships and employee matching gifts.

Who were the biggest recipients? Educational facilities dominated the list of top 50 recipients in the state, according to Foundation Center statistics. Southern Methodist University in Dallas gathered the most, more than \$37 million, while the Houston Museum of Science, ranked 50th, received about \$3 million.

Individual Gifts Benefit the Whole

As Holthouse points out, at the heart of every organization are its people. Texans give millions to nonprofits each year. Longtime arts patron and oil heiress Caroline Wiess Law, for instance, left millions of dollars worth of fine art pieces and a \$25 million endowment to the Museum of Fine Arts Houston (MFAH) when she died in 2003.

Law's relationship with the museum spanned decades. During that time she saw how her funds were handled, says Peter Marzio, MFAH director. Although appreciated, a donation of this size is atypical, to say the least. According to its 2007 annual report, MFAH received about \$8.4 million from 186 foundations.

Texans continually show they care in gifts small and large. Last year, Paul J. Foster, CEO



Big Gift for Little Ones

Dell Children's Medical Center grows with community.

In 2004, a \$50 million campaign was launched for a new state-of-the-art Children's Medical Center of Central Texas. Gifts ranged from several dollars all the way up to a \$25 million grant from the Michael and Susan Dell Foundation. More than \$86 million was raised for the \$200 million facility, which in 2007 would become the Dell Children's Medical Center of Central Texas.

"People gave because of the need," says Missy Wood, executive director of Children's Medical Center Foundation of Central Texas.

In addition to housing medical services, the medical center has a green design and includes six courtyards and 900 pieces of artwork.

"What we've come to realize is it's so much more than just a building," Wood says.

TOP 5

of Western Refining in El Paso, donated \$50 million to the Texas Tech University Health Sciences Center School of Medicine. That same year, Harold and Annette Simmons pledged \$50 million to the University of Texas Southwestern Medical Center in Dallas for the study of neurological diseases. In 2008, the Dan L. Duncan Family Foundation of Houston gave \$35 million to the University of Texas M.D. Anderson Cancer Center's cancer prevention program. Before that, the Baylor College of Medicine received a \$100 million gift from Dan Duncan and his family for a cancer research, treatment and education center.

Nationally, charitable giving is on the rise, reaching \$306.4 billion in 2007, according to *Giving USA 2008*, a report issued by Giving USA Foundation. Individual giving totaled

Texas Foundations

When it comes to giving, these foundations contributed more than \$406 million in 2005.

Dollar amounts in millions.

Foundation	Total Giving
Greater Houston Community Foundation	\$109
The Brown Foundation Inc	. \$68
ExxonMobil Foundation	\$64
Communities Foundation of Texas Inc.	\$60
The Michael and Susan Dell Foundation	\$56
Source: The Foundation Center	

an estimated \$229 billion, or 74.8 percent of all giving in 2007. This was an increase of 2.7 percent over 2006.

Whether Texans give millions of dollars or minutes of their time, a sound philanthropic decision takes homework, says Holthouse, who advises selecting a recipient of your gift the way you would hire an employee.

"Check references; talk to whom they have served," he advises. "Go to their facilities and talk to the employees. Use your heart to determine what you want to invest in, but use your business sense and due diligence to ascertain what is going to have the greatest impact." FN

For more information on philanthropic activities in Texas or nationwide, visit *www. foundationcenter.org*.



So you don't have millions, thousands or even hundreds of dollars to dole out to your favorite Texas nonprofit. But even your \$20 donation can make a big difference.

Don't believe us? Ask George Fierro at YMCA of Midland, and he'll tell you your money will pay half the weekly cost for one child's after-school care. It could supplement eight weeks of swimming lessons or provide a partial scholarship for a week of daycare.

In 2007, the YMCA of Midland provided \$144,000 in scholarship assistance for its myriad programs. About 4,000 weekly scholarships were awarded to 425 children. No one was turned away.

Gregory Duke, director for the Concho Valley Regional Food Bank, can stretch your \$20 donation to \$160. The regional food bank, located in San Angelo, serves 15 counties. If not earmarked for food purchases, the money goes to offset the shared overhead costs incurred at the facility, including utilities.

Tell us what \$20 will do for your Texas non-profit and we'll share the information online. E-mail your story to fiscal.notes@cpa.state.tx.us.

Defense Industry Flies High

a whopping \$197.1 billion from 2000 to 2007, \$39.5 billion of that amount in 2007 alone. Texas ranked second among states for total defense contract value in 2007, behind only Virginia's \$40.9 billion.

"Being in the central part of the country, goods could be moved to the East and West coasts in roughly the same timeframe," says Keith Graf, director of the Texas Governor's Office of Aerospace, Aviation and Defense. "Businesses just stayed here."

Building the Arsenal

Texas defense contractors make an incredible array of products, from engine parts to sophisticated electronics and software. Not all of it is related to aerospace and aviation. At BAE Systems' facility in Sealy, near Houston, for instance, about 2,400 employees turn out about 40 "medium tactical vehicles" (trucks, to the civilian) for the Army each day, as well as mine-resistant and ambush-protected vehicles.

In keeping with its origins, however, the Texas defense industry is dominated by aerospace.

"The aerospace industry employs roughly 200,000 employees in Texas," Graf says. "I'd say defense makes up the largest section of that, with major defense contractors like Lockheed Martin, Boeing, Raytheon and Vought Aircraft all located here."

High-profile defense aviation projects based in Texas include the tilt-rotor V-22 Osprey, a joint project of Boeing and Bell Helicopter Textron.

"The Osprey program is extremely important to North Texas, both in Fort Worth, where they manufacture some of the components, and in Amarillo, where it's a hugely important employer," Graf says.

Bell Helicopter employs about 1,070 people in Amarillo and 6,000 in the Fort

Defense Titans

In 2007, Texas ranked second among states in the value of defense contracts won.

Ten Largest Destinations for Defense Contract Spending, 2007

State	2007 Contract
Virginia	\$40,851,321,392
Texas	\$39,480,651,081
California	\$38,914,099,311
Florida	\$15,335,818,286
Maryland	\$13,121,392,252
Massachusetts	\$11,885,973,889
Pennsylvania	\$10,949,831,217
Missouri	\$10,105,630,157
Arizona	\$8,098,949,893
New York	\$7,947,143,473
All Other States	\$104,819,533,626

GRAND TOTAL \$301,510,344,577

Source: Government Contracts Won, www.governmentcontractswon.com

Worth area. Work on the Osprey program was buoyed by the March 2008 announcement of a five-year, \$10.4 billion contract for 167 V-22s.

Also in Fort Worth is Lockheed Martin. The company's enormous facilities, which once produced B-24 Liberator bombers, now assemble both the frontline F-16 fighter and its potential replacement, the F-35 Lightning II, a stealthy fifth-generation fighter expected to play a leading role in airborne defense for decades to come (see Lightning Built in Texas, p. 6).

Lockheed Martin's footprint in the Dallas-Fort Worth Metroplex is huge, with a Tactical Aircraft Systems unit headquartered in Fort Worth and a Missiles and Fire Control unit based in Grand Prairie. Lockheed Martin is the area's second-largest employer, with more than 14,000 positions.

Keep 'Em Flying

In addition to defense manufacturing, many Texans work in operations that maintain military air fleets, called "MRO," which stands for maintenance, repair and overhaul.

The largest of these is the Boeing Support Systems' Aerospace Support Center in San Antonio, which employs about 1,625. The 1.6 million-square-foot center, Boeing's largest MRO facility, provides maintenance and upgrades on a variety of military aircraft.





About 300 of the Aerospace Support Center's employees work on maintaining the Air Force's aging KC-135 tanker, which first flew more than 50 years ago.

"It'll take awhile to replace those aircraft," Graf says. "I think they're looking at keeping those in the air for another 10 to 20 years."

In September 2007, Boeing won a \$1.1 billion contract for continued KC-135 maintenance and announced plans to add 200 more San Antonio employees to support the program. Boeing recently announced that the center will also perform some finishing work on the first 10 to 15 of the company's new commercial liner, the 787 Dreamliner, and these numbers could grow.

Another Texas MRO operation is L-3 Communications' Waco Integration Center, which employs about 1,620 and hosts several hundred federal government employees and other contractors. "They do MRO work for the P3 Orion, maintaining that fleet for the Navy and U.S. Customs, and for the C-130 Hercules," says Graf.

Broader Benefits

Texas defense contracts carry a number of benefits that ripple throughout the state's economy. For one thing, they tend to create high-skill, high-wage positions.

Billions for Defense

Texas' defense contractors have earned more than \$197 billion from contracts with the U.S. Department of Defense over the past eight years.

Texas Defense Contracts Won, 2000-2007

Year	Number of Contracts	Total Contract Dollar Value
2000	5,651	\$13,064,499,348
2001	5,936	\$9,989,353,612
2002	8,485	\$14,151,186,044
2003	11,133	\$27,532,343,511
2004	14,671	\$30,286,159,699
2005	27,290	\$27,196,338,837
2006	25,695	\$35,442,516,835
2007	33,620	\$39,480,651,081
TOTAL	132,481	\$197,143,048,967

Source: Government Contracts Won, www.governmentcontractswon.com

"The great thing about these jobs is that they pay quite a bit higher than the average state wage," says Graf. "The average [defense industry] wage is somewhere around \$50,000 a year."

Graf notes that these manufacturing jobs tend to have a high multiplier effect because they attract other suppliers. For instance, a few weeks after Bell Helicopter Textron and Boeing received the V-22
Osprey contract, they signed a \$400 million deal with Dallas-based Vought Aircraft Industries to supply tail parts for the craft. And BAE Systems reports that its Sealy vehicle plant partners with nearly 350 Texas vendors who sold the plant \$541 million worth of goods and services in 2007.

Major defense contracts such as these produce a great deal of additional work for subcontractors and suppliers, creating jobs at dozens, hundreds or even thousands of smaller companies and thus greatly magnifying their economic impact.

Boeing has estimated that its 5,200 Texas employees working on government and commercial programs support about 20,000 jobs in the state and contribute more than \$3.5 billion to the economy annually. Northrop Grumman, with about 1,800 Texas employees, estimates its annual economic impact on the state at \$364 million. And BAE Systems, which employs 3,600 in Texas, claims its annual impact on the state economy exceeds \$891 million.

"Aerospace jobs are highly important to Texas," Graf says. "It's a critical industry for the state, and the outlook for its future is quite positive." **FN**

For more information on Texas defense contractors, visit

www.government contracts won.com.

Metroplex Leads Defense Contracting

Nine-tenths of Texas' defense contract funding goes to operations based in six metropolitan areas. Between them, the Dallas and Fort Worth metropolitan statistical areas (MSAs) accounted for about half of all defense contracts in the state from 2000 to 2007.

Defense Contract Values by Metropolitan Statistical Area, 2000-2007

Texas MSAs	Contract Values	Snare of Total
Austin-Round Rock	\$10,572,548,725	5.4%
Dallas-Plano-Irving	\$31,658,630,856	16.1%
Fort Worth-Arlington	\$67,200,529,651	34.1%
El Paso	\$4,000,563,190	2.0%
Houston- Sugar Land-Baytown	\$49,630,042,262	25.2%
San Antonio	\$19,857,896,594	10.1%
GRAND TOTAL	\$197,143,048,967	92.8%

Source: Government Contracts Won, www.governmentcontractswon.com

Brief Bytes

Health Insurance, Fuel Costs Concern Small Business Owners

Rising costs related to health insurance, fuel and inflation are the top concerns among small business owners, according to a survey by the National Federation of Independent Business (NFIB) and Wells Fargo.

Released in June, the Small Business Problems and Priorities survey ranks health insurance costs as the top issue facing small business owners. More than 56 percent of respondents ranked the cost of health insurance as a "critical problem." Other top 10 concerns include the cost of fuels and electricity, supplies, inventories and worker's compensation insurance.

NFIB conducts the study every four years. Results are based on 3,530 small business owner responses to a mail survey circulated in the first three months of this year.

"For four years, the economy provided a good, stable foundation for small business owners to do business, but as it started to take a negative turn over the last several months, they felt the effects of rising costs of doing business as reflected by these results," says Bruce D. Phillips of the NFIB Research Foundation.

For more information on the survey, contact Mike Diegel at the National Federation of Independent Business at (202) 314-2004 or visit www.nfib.com.

(Karen Hudgins)



Dallas-Fort Worth at Lowest Risk for Falling Home Prices

There is a less than 1 percent chance that home prices in the Dallas-Fort Worth area will be lower than they are today in the spring of 2010. That's according to a July report by PMI Mortgage Insurance Co., which forecasts the likelihood of home price declines among the nation's 50 largest metropolitan statistical areas.

Austin, Houston and San Antonio also ranked among the metropolitan statistical areas (MSAs) with the lowest risk for home-price declines. Each had less than a 1 percent chance of home-price declines.

PMI's Summer 2008 U.S. Market Risk Index ranks the nation's 50 largest MSAs, according to the likelihood that home prices will be lower in two years. Riverside-San Bernardino-Ontario, Calif., has the highest risk of future price declines, with a 95 percent chance, followed by Fort Lauderdale-Pompano Beach-Deerfield Beach, Florida, with a 92 percent chance.

There's been a significant increase in the number of existing single-family homes for sale relative to the number of buyers compared with a year earlier, says PMI's David Berson in the report. He expects national home price declines to continue into at least 2009.

For more information or to download a complete copy of the report, visit www.pmi-us.com/eret.

(Karen Hudgins)



Port of Galveston Secures \$28 Million Loan

The Port of Galveston closed on a \$28.1 million loan in July to modernize its facilities for handling larger oceangoing vessels.

The port obtained the loan through the Texas Industry Development Loan Program (TID). Administered by the Governor's office, TID loans offer low-cost, long-term financing to cover costs of economic development projects. The port will use the funds to revitalize aging infrastructure and will pay the loan back over 17 years.

Funded projects include deepening the Galveston Harbor Channel and modernizing channel front berths. An economic impact analysis commissioned by the port determined that the improvements could create more than 2,000 new jobs and \$405 million in additional revenue when completed.

During 2006 and 2007 the Port of Galveston was the fourth busiest cruise port in the U.S. and 11th in the world.

For more information, contact Cristina Galego, Port of Galveston, at (409) 766-6119 or visit www.portofgalveston.com.

(Karen Hudgins)

Saving Energy, Increasing Profits

The new Texas Agricultural Technical Assistance Program will provide farmers and ranchers with information on cost-effective energy choices, help identify funding and incentive sources, conduct training and offer free Energy Assessment Reports (EARs) of producers' buildings and facilities.

The State Energy Conservation Office (SECO), a division of the Comptroller's office, oversees the program.

"This program seeks to enhance the continued success of our state's agriculture industry by streamlining energy costs and keeping Texas competitive," says Texas Comptroller Susan Combs.

Energy consumption usage data and information about the farming equipment used in production will be included in the reports. They will identify ways to reduce energy costs and recommend changes to electricity, propane and diesel fuel use within the farm operation.

For more information, visit SECO online at www.seco.cpa.state.tx.us.

(Tracey Lamphere)

Your Money or Your Thermostat

A pilot program in Dallas and Houston, begun in July, is aimed at cutting electricity bills and consumption during late summer afternoons. The Center for the Commercialization of Electric Technology (CCET) wants consumers to hand over their thermostat controls in order to conserve electricity during peak times. This is also aimed at bringing down wholesale energy costs energy for the electric companies.

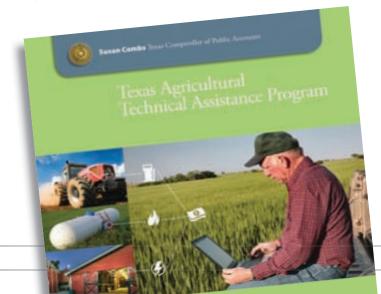
CCET was created in 2005 by the electric industry, technology companies and universities to promote new technology.



Dallas-based Oncor Electric Delivery is providing the technology to complete the project in Dallas, while Reliant Energy, TXU Energy and Direct Energy recruited volunteer participants.

Customers received payment, a free inspection of their air conditioning system and a new thermostat for participating. Up to 500 residents in each city are participating.

For more information, visit www.electrictechnologycenter.com. (Tracey Lamphere)



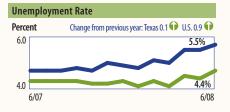
Texas by the Numbers

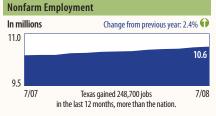
Key Texas Economic Indicators

If it were not for Texas' job growth, the nation would have seen a net loss of jobs over the past twelve months. With Texas' gain of 249,000 jobs, the nation lost 67,000 jobs. Texas added jobs in all major industries except the information and manufacturing industries. Even with a drop in housing permits, the state's construction employment grew in response to non-residential and highway construction. Year-to-year inflation increased in June at its fastest rate since December 1990.

























Texas	Production	and Consu	mption Indic	ators				
	Crude Oil Production	Natural Gas Production	Active Oil & Gas Drilling Rigs	Motor Fue	els Taxed	Median Sale Price, Existing Single-family Home	Auto Sales	Cigarettes Taxed
	Value	Value	Units	Gasoline	Diesel	Dollars	Net Value	Packages of 20
Date	(Millions)	(Millions)		(Millions o	f Gallons)		(Millions)	(Millions)
2006	\$19,657.5	\$19,852.1	746	11,372.8	3,731.6	\$143,100	\$45,756.2	1,280.2
2007	20,893.0	24,373.4	834	11,624.8	3,886.9	147,500	48,500.6	1,085.8
May-07	\$1,557.8	\$2,276.0	829	983.1	248.5	\$149,200	\$4,227.3	92.3
Jun-07	1,556.1	2,295.4	834	1,002.3	326.8	155,000	4,159.0	89.5
Jul-07	1,769.9	2,183.2	831	978.2	326.3	152,200	4,368.3	96.2
Aug-07	1,790.1	2,052.2	844	974.3	320.5	152,700	4,383.8	151.3
Sep-07	1,948.8	1,893.7	837	1,021.1	360.6	146,900	4,294.2	29.3
Oct-07	1,958.8	2,073.1	842	939.6	315.9	143,500	4,303.5	96.1
Nov-07	2,311.3	2,049.9	860	1,025.7	371.5	144,900	3,678.9	92.8
Dec-07	2,225.6	2,294.7	884	965.8	342.4	147,500	3,828.5	88.2
Jan-08	2,332.2	2,451.3	858	985.8	313.7	138,900	4,034.0	76.7
Feb-08	2,270.8	2,552.0	866	954.2	343.2	142,800	3,840.8	80.2
Mar-08	2,528.4	3,043.3	881	940.6	324.1	147,000	3,940.0	79.1
Apr-08	2,651.1	3,139.5	887	1,010.4	281.1	146,800	3,957.8	90.5
May-08	2,961.9		906	975.8	343.1	150,700	3,791.7	98.3
Jun-08			923	1,018.3	331.5	155,900	4,051.0	89.6
Jul-08			920	954.0	321.3			93.3

State Expenditures/All Funds¹

July Cash Condition ¹				
(Amounts in millions)	General Revenue	Other Funds	Total Cash	
Beginning Balance June 1, 2008	\$12,481.2	\$19,774.9	\$32,256.1	
Revenue/Expenditures				
Revenue	4,881.1	3,208.5	8,089.6	
Expenditures	5,518.7	2,117.4	7,636.1	
Net Income (outgo)	\$-637.6	\$1,091.1	\$453.5	
Net Interfund Transfers and Investment Transactions	\$-363.1	\$308.0	\$-55.1	
Total Transactions	-1,000.7	1,399.1	398.4	
End Cash Balance June 30, 2008 ²	\$11,480.5	\$21,174.0	\$32,654.5	
Cook stated in from the Comptroller's Uniform Statewide Accounting System (USAS) and will your from				

Cash stated is from the Comptroller's Uniform Statewide Accounting System (USAS) and will vary from the amounts reflected in the cash accounts of the Treasury Operations Division of the Comptroller's office due to timing differences. Net amounts shown (less refunds) exclude funds that are authorized to be held outside the State Treasury and are not processed through USAS. Suspense and Trust Funds are included, as are unemployment compensation trust funds collected by the state but held in the Federal Treasury. Totals may not add due to rounding.

² The ending General Revenue Fund Balance includes \$1.2 billion derived from the sale of cash management notes.

State Revenue/All Funds ¹			
	Monthly Revenue		ar-to-Date 7-July 2008
(Amounts in millions)	July 2008	Revenue	% Change YTD/YTD
Tax Collections by Major Tax			
Sales Tax	\$1,874.9	\$19,596.1	6.5%
Oil Production Tax	158.5	1,277.7	69.9
Natural Gas Production Tax	337.6	2,377.3	38.4
Motor Fuel Taxes	250.1	2,841.8	1.7
Motor Vehicle Sales Tax	293.2	3,061.1	1.8
Franchise Tax	58.1	4,333.8	53.9
Cigarette & Tobacco Taxes	137.7	1,332.9	19.3
Alcoholic Beverages Tax	68.6	717.8	7.1
Insurance Companies Tax	255.8	1,161.9	11.3
Utility Taxes ²	98.3	440.1	-1.1
Inheritance Tax	0.0	5.6	14.5
Hotel/Motel Tax	35.6	336.5	8.9
Other Taxes ³	157.5	1,141.4	-10.4
Total Tax Collections	\$3,725.9	\$38,624.0	12.4%
Revenue by Receipt Type			
Tax Collections	\$3,725.9	\$38,624.0	12.4%
Federal Income	2,155.2	23,743.8	6.8
Interest and Investment Income	116.7	2,558.3	-0.3
Licenses, fees, permits, fines,	549.3	9,486.7	51.3
Contributions to Employee Benefits	453.5	4,424.6	7.6
Sales of Goods and Services	39.3	423.1	-14.7
Land Income	123.2	948.6	36.3
Net Lottery Proceeds ⁴	144.9	1,482.0	5.7
Other Revenue Sources	781.5	6,647.9	6.0
Total Net Revenue	\$8,089.6	\$88,339.1	12.7%

- Excludes revenues for funds that are authorized to be held outside the State Treasury and are not processed through USAS. Totals may not add due to rounding.
- Includes the utility, gas utility administration and public utility gross receipts taxes.
- Includes the cement and sulphur taxes and other occupation and gross receipt taxes not separately identified.
- ⁴ Gross sales less retailer commissions and the smaller prizes paid by retailers.

	Monthly Expenditures	Fiscal Year-to-Date Sept. 2007-July 2008		
(Amounts in millions)	July 2008	Expendi- tures	% Change YTD/YTD	
By Object				
Salaries and Wages	\$765.6	\$9,044.7	4.5%	
Employee Benefits/ Teacher Retirement Contribution	754.1	7,797.7	7.2	
Supplies and Materials	87.0	837.5	16.5	
Other Expenditures	247.3	2,443.0	8.9	
Public Assistance Payments	2,586.1	29,450.3	7.1	
Intergovernmental Payments:				
Foundation School Program Grants	1,601.3	17,888.8	28.0	
Other Public Education Grants	1,927.8	4,249.2	4.3	
Grants to Higher Education	87.9	953.8	5.6	
Other Grants	188.0	2,099.0	12.2	
Travel	14.2	136.6	10.9	
Professional Services and Fees	125.4	1,800.7	2.7	
Payment of Interest/Debt Service	93.3	745.3	10.2	
Highway Construction and Maintenance	480.1	4,877.2	-6.5	
Capital Outlay	46.0	423.6	36.0	
Repairs and Maintenance	58.8	577.0	14.1	
Communications and Utilities	42.4	455.5	11.5	
Rentals and Leases	23.5	233.4	6.5	
Claims and Judgments	9.1	99.2	33.2	
Cost of Goods Sold	95.1	783.2	-2.8	
Printing and Reproduction	4.7	41.1	0.2	
Total Net Expenditures	\$7,636.1	\$84,936.8	9.9%	
By Function				
General Government				
Executive	\$560.8	\$5,265.3	9.8%	
Legislative	10.3	112.6	-5.6	
Judicial	19.4	217.7	5.6	
Subtotal	590.5	5,595.6	9.3	
Health and Human Services	2,470.0	28,157.8	5.9	
Public Safety and Corrections	300.4	3,773.0	7.5	
Transportation	691.3	7,175.2	-1.8	
Natural Resources/Recreational Services	204.1	1,859.7	11.6	
Education	2,508.0	29,770.4	17.7	
Regulatory Agencies	32.7	273.5	24.1	
Employee Benefits	664.1	6,779.9	8.7	
Debt Service—Interest	93.3	745.3	10.2	
Capital Outlay	46.0	423.6	36.0	
Lottery Winnings Paid ²	35.8	382.9	5.0	
Total Net Expenditures	\$7,636.1	\$84.936.8	9.9%	

Monthly

Fiscal Year-to-Date

- Excludes expenditures for funds that are authorized to be held outside the State Treasury and are not processed through USAS. Totals may not add due to rounding.
- ² Does not include payments made by retailers. Previously shown as "Other expenditures

Some revenue and expenditure items have been reclassified, changing year-to-date totals. The ending cash balance is not affected because changes reflected in "total net revenues" and "total net expenditures" offset changes in "net interfund transfers and investments transactions" in the cash condition table.

Revenues and expenditures are reported for the most recent month available and as a running total for the current fiscal year-to-date. In addition, year-to-date figures are compared with the same period in the last fiscal year. These comparisons are reported as percentage changes, which may be positive or negative (shown by a minus sign).

Trust fund transactions are included within revenues and expenditures in the "all funds" presentations. Trust funds are not available to the state for general spending.

Crude oil and natural gas figures are net taxable values. Gasoline gallons include gasohol. Auto sale values are calculated from motor vehicle taxes collected on new and used vehicle sales. All figures are seasonally adjusted, except for sales tax collections; rigs; consumer price; housing permits/sales/prices; and consumer confidence. Figures are based on the most recent available data. Annual figures are for calendar years. [‡ Double axis graphs: Graphs with two vertical axes show values for Texas on the left and values for the U.S. on the right. This method shows trends more clearly over the last year when data values are substantially different at state and national levels.]

Sources:

Key Texas Economic Indicators: Consumer Price Index, Change in Nonfarm Employment: U.S. Bureau of Labor Statistics Consumer Confidence Index: The Conference Board

Leading Economic Indicators Index: Texas Comptroller of Public Accounts, The Conference Board

Unemployment Rate: Texas Workforce Commission, U.S. Bureau of Labor Statistics

Nonfarm Employment: Texas Workforce Commission
State Sales Tax Collections, Retail Establishments: Texas Comptroller of Public Accounts
Housing Permits, Existing Single-family Home Sales: The Real Estate Center at Texas A&M University

Industrial Production Index: Federal Reserve Bank of Dallas Contract Value, Non-Residential Building Construction: McGraw-Hill Mortgage Foreclosures: RealtyTrac

Texas Production and Consumption Indicators:

Texas A&M University

Crude Dil, Natural Gas, Motor Fuels, Auto Sales, Cigarettes: Texas Comptroller of Public Accounts
Active Dil & Gas Drilling Rigs: Baker-Hughes Incorporated
Median Sale Price, Existing Single-family Home: The Real Estate Center at

SUSAN COMBS

Texas Comptroller of Public Accounts

FISCAL NOTES is one of the ways the Comptroller's office strives to assist taxpayers and the people of Texas. The newsletter is a byproduct of the Comptroller's constitutional responsibilities to monitor the state's economy and to estimate state government revenues.

FISCAL NOTES also provides a monthly summary of the financial statements for the State of Texas.

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Booming in Business

Nonemployer businesses — those without paid employees - raked in more than \$970 billion in 2006. Texas was second among states in its number of these businesses, at 1.7 million.

Top 5 Texas Nonemployer Businesses by Gross Revenue

Construction \$16,821,251

Real estate and rental and leasing \$12,259,273

Professional, scientific and technical services \$10,452,118

Other services (except public administration) \$6,824,971

Transportation and warehousing \$6,772,418



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